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TREASURY FOR U/S LEVEY, RACHEL LOEFFLER, BAKER AND GAERTNER
NSC FOR GRAHAM AND MCKIBBEN

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TAGS: KTFN EFIN ETTC ECON PTER PREL RS
SUBJECT: TREASURY U/S LEVEY DISCUSSES DPRK, IRAN WITH
RUSSIAN OFFICIALS

REF: MOSCOW 12322

Classified By: ECON M/C Pam Quanrud, Reasons 1.4 (b/d).

¶1. Summary. (C) In meetings October 23 and 24 with Treasury Under Secretary Levey, officials from the Central Bank (CBR), Finance Ministry and private Russian banks downplayed the possibility that North Korean and Iranian entities are actively using the Russian financial system to launder money and to access foreign capital. Russia's Central Bank Deputy Chairman requested that the USG present the evidence of such activity in writing, with a request for Russian authorities to conduct an investigation. The Russians promised a timely response. End Summary.

¶2. (U) Reftel A reports on a meeting with the Foreign Ministry. The meeting with the Federal Financial Monitoring Service (FFMS) will be reported septel. End Summary.

Using Russia's Financial System

¶3. (C) In meetings on October 23 and 24 in Moscow, U/S Levey shared information outlining how North Korean banks and entities identified as proliferators of WMD may attempt to use Russian banks to store and launder proceeds from their illicit activities; to access foreign capital; and to transfer money to and from Pyongyang. Russia is becoming increasingly attractive to these entities since their access to financial markets in China, Hong Kong, and other Asian countries, has been largely shut down. Levey pointed to the specific case of North Korea's Tanchon Bank and its relationship with a Russian bank. Although the volume and value of transactions with North Korean entities may not be significant, the accounts would not need to be substantial to fund or support illicit proliferation or other destabilizing operations. Raising similar concerns about Iranian entities, U/S Levey described action the USG had taken to disrupt the ability of one Iranian banks to support terrorist activities.

Iran has been employing deceptive financial tactics, and U/S Levey urged working toward our common interest of preventing Iran's abuse of the international financial system.

Central Bank

¶4. (C) Central Bank Deputy Chairman Viktor Melnikov asked that U/S Levey formally pass the list of entities designated pursuant to E.O. 13382 so that he could investigate the relationships and provide a full response within two weeks of

receiving the official request.

Russian Banks: Alfa, Vneshtorgbank-24 (VTB), and Sberbank

¶5. (C) VTB's CEO Mikhail Zadornov, Sberbank's Deputy Governor Boris Govorunov, and Alfa Bank's Chief Operating Officer Miroslav Boublik downplayed the possibility of any business relationship between their banks and North Korean entities. Prior to the meeting with U/S Levey, Zadornov said he explicitly asked his bank to investigate whether there were any such financial transactions being conducted; and turned up nothing. Sberbank's Govorunov maintained that his bank was above all else focused on the domestic market. If there were transactions, which he believed there were not, they would be of an insignificant amount. Boublik responded that Alfa Bank had no relationship with North Korean organizations and would likely determine that the risks of such a relationship outweighed any benefits. (Note: Sberbank is Russia's largest bank, with 54 percent of retail deposits and 26 percent of Russia's banking sector assets. VTB is the second-largest with 3 percent of retail deposits and 7 percent of assets. Alfa Bank is Russia's largest privately held bank but occupies 5th place overall, with 1.2 percent of retail deposits and 2.3 percent of assets. End Note.)

¶6. (C) The bankers urged that if evidence existed, such information should be passed immediately to the Federal Financial Monitoring Service (FFMS), Russia's Financial Intelligence Unit (FIU). They explained that only the FFMS has the authority to order an investigation of suspicious activity or individual(s) and to suspend/freeze an account or transaction. Any transaction above USD 20,000 is automatically forwarded to the FFMS for evaluation, but the FFMS can review any transaction regardless of monetary amount.

¶7. (C) When asked by U/S Levey whether banks have discretion to sever a business relationship with a client, Zadornov noted "there is Russian law; and there is Russian practice." Boublik clarified that Russian banks face difficulties in forcibly terminating an account if the client is not on the FFMS blacklist. Boublik acknowledged that Alfa Bank uses the OFAC list, despite Russian law that banks can only use GOR-approved lists to scan transactions and make decisions about client relationships. Zadornov said that VTB is concerned about maintaining a positive reputation; the bank frequently conducts additional due diligence regarding prospective clients or existing customers of a suspicious nature. He implied that few other Russian banks have such an aggressive "know-your-customer" stance and many may not even comply with the requirements of Russian law. When pressed by U/S Levey whether VTB would use this discretion when dealing with North Korean and Iranian entities, Zadornov obliquely replied in the affirmative, but also maintained that such business relationships did not exist with his bank.

¶8. (C) In response to U/S Levey's concerns about Tehran, Zadornov touched briefly upon the different perspectives the U.S. and Russia hold on Iran, acknowledging that Russia has business interests that the U.S. does not. Boublik echoed this and encouraged the USG to provide information of concern to the Central Bank and the FFMS for action. Govorunov said that unquestionably Russian banks would comply with the requirements of any UNSC resolution on Iran.

Comment

¶9. (SBU) Under Secretary Levey's visit resonated with the Central Bank and the Federal Financial Monitoring Service, which are interested in formalizing information sharing as it pertains to illicit financial flows. We understand that earlier this year, Andrey Kozlov, the deputy chairman of the Central Bank who was assassinated in September, sent letters to his counterparts in the Federal Reserve and the Office of the Comptroller of the Currency seeking such formalized information exchanges. Despite Kozlov's death, the Central

Bank remains interested in such a partnership. End Comment.

¶10. (U) This message held for Under Secretary Levey's clearance.

BURNS